

## Message Text

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ORIGIN EUR-12

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CINCUSAREUR HEIDELBERG GER PRIORITY  
USLOSACLANT NORFOLK PRIORITY

C O N F I D E N T I A L STATE 035220

E.O. 11652: GDS

TAGS: MARR, NATO

SUBJECT: FINANCING FACILITIES FOR NATO REINFORCEMENT  
INITIATIVES

SUMMARY  
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DEFENSE IS CONSIDERING APPROACHING FRG AT MOD LEVEL  
OR THROUGH NATO LTDP REINFORCEMENT TASK FORCE NUMBER 2  
WITH A PROPOSAL WHEREBY THE FRG WOULD CONSTRUCT  
FACILITIES FOR POMCUS AND AMMO STORAGE, AND IN TURN,  
LEASE THESE FACILITIES TO NATO FOR THE USER -- THE US.

THE PAYBACK WOULD BE FROM ALL NATO COUNTRIES THROUGH THE NATO INFRASTRUCTURE PROGRAM. COMMENTS OF ACTION ADDRESSEES ARE REQUESTED BY OOB FEBRUARY 13, 1978. INFORMATION ADDRESSEES ARE ALSO INVITED TO COMMENT. END.

1. RECENT DECISIONS ALREADY EFFECTED IN THE FY 1979-1983 PDM PROCESS AND PENDING IN THE CONSOLIDATED GUIDANCE FOR FY 1980-1984 WILL REQUIRE PRE-POSITIONING OF A TOTAL OF SIX ADDITIONAL DIVISION SETS OF EQUIPMENT IN EUROPE BY END OF FY 1984. ESTIMATED FACILITIES COSTS

FOR STRUCTURES TO RECEIVE AND MAINTAIN THIS PREPOSITIONED MATERIEL ARE APPROXIMATELY 550 MILLION DOLLARS. ADDITIONALLY, THE ONGOING PROGRAM TO INCREASE AMMUNITION RESERVES IN EUROPE WILL REQUIRE SOME 150 TO 180 MILLION DOLLARS OF STORAGE STRUCTURES

IN THE SAME PERIOD, AND CONSTRUCTION OF NEEDED AIRCRAFT SHELTERS WOULD REQUIRE AN ADDITIONAL 800 MILLION DOLLARS IF DOD CONTINUES TO PRESS TOWARD ITS OBJECTIVE OF SHELTERING 100 PERCENT OF US AIRCRAFT ASSIGNED TO EUROPE.

2. IN THE LAST SEVERAL YEARS CONGRESS (NOTABLY THE SASC) AND HAC) HAS BEEN INCREASINLY CRITICAL OF WHAT THEY PERCEIVE TO BE LARGE REQUESTS FOR MILITARY CONSTRUCTION FOR U.S. FORCES IN EUROPE. LAST YEAR THE SASC "PUT THE CONFIDENTIAL

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DEPARTMENT OF DEFENSE ON NOTICE" THAT THEY EXPECTED FUTURE REQUESTS FOR SUCH CONSTRUCTION TO BE FINANCED BY NATO INFRASTRUCTURE OR SOME SIMILAR COST-SHARING ARRANGEMENT.

3. CURRENTLY, NATO MILITARY COMMANDERS ARE CONSIDERING A PROPOSED 1980 - 1984 INFRASTRUCTURE PACKAGE OF

AT LEAST 1.0 BILLION IAU (ABOUT 3.8 BILLION DOLLARS), WITH THE U.S. ENDORSING A PROGRAM OF AT LEAST 1.5 BILLION IAU (ABOUT 5.8 BILLION DOLLARS). HOWEVER, IF THE LOWER 1.0 BILLION IAU LEVEL WERE DECIDED UPON, IT WOULD ONLY PROVIDE FUNDS SUFFICIENT TO MAINTAIN THE PROGRAM AT EXISTING LEVELS, INCLUDING -- AN AVERAGE 7 PERCENT COMPOUNDED ANNUAL INFLATION OF COSTS AND REPAYMENT OF PREFINANCED PROJECTS. IT WOULD OBVIOUSLY BE INSUFFICIENT TO PROVIDE FOR COMMON FUNDING OF THE LTDP OR FOR COMPLETION OF THE AIRCRAFT SHELTER PROGRAM AND THE ADDITIONAL POMCUS AND AMMO STORAGE REQUIRED

4. INFRASTRUCTURE PROGRAM OF 1.5 TO 2.0 BILLION IAU WOULD BE REQUIRED TO FINANCE EXISTING NATO NEEDS TOGETHER WITH MORE FACILITIES FOR MUNITIONS STORAGE, POMCUS, AIRCRAFT SHELTERS AND OTHER INFRASTRUCTURE INCREASES NEEDED TO CARRY OUT THE LTDP. WHILE THIS REFLECTS A SIGNIFICANT INCREASE IN THE PROGRAM, ALL CONCERNED MUST REALIZE THAT INFRASTRUCTURE IS ONLY AN INFINITESIMAL PROPORTION (LESS THAN ONE PERCENT) OF TOTAL NATIONAL DEFENSE EXPENDITURES.

5. ACCORDINGLY, WE MUST SUPPORT A COMMON EFFORT TO ACHIEVE A SIGNIFICANT REAL INCREASE IN THE INFRASTRUCTURE PACKAGE FOR 1980-1984. IT IS HIGHLY QUESTIONABLE THAT THE CONGRESS WILL AGREE TO  
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AUTHORIZE THE ADDITIONAL FACILITIES WE NEED IF THE OUTLOOK FOR RECOUPMENT IS LONG RANGE OR DOUBTFUL.

6. SHOULD EFFORTS TO ACHIEVE AGREEMENT ON A 1.5 TO 2.0 BILLION IAU PROGRAM FAIL, IT SEEMS CLEAR THAT SOME ALTERNATIVE TO US PREFINANCING WILL HAVE TO BE CONSIDERED.

7. AS A POSSIBLE ALTERNATIVE, WE WOULD LIKE TO PROPOSE FOR CONSIDERATION A PLAN WHICH WOULD PROVIDE FOR THE FACILITIES TO BE CONSTRUCTED AND OPERATED BY THE HOST COUNTRY (GERMANY AND POSSIBLY BENELUX COUNTRIES LATER) AND LEASED TO NATO FOR THE US ON LONG-TERM AT A RATE SUFFICIENT TO AMORTIZE THE INVESTMENT OVER A 20-YEAR LEASE PERIOD. THERE IS SOME INDICATION OF AT LEAST A DEGREE OF FRG ACCEPTANCE OF THE LEASE PRINCIPLE IN THEIR RECENT PROPOSAL TO THE US OF A LEASING ARRANGEMENT WITH RESPECT TO THE GEPARD WEAPON IN AN EFFORT TO ENCOURAGE THE US TO ADOPT THAT WEAPON SYSTEM (SEE BONN 00676, DTG 131551Z JAN 78, NOTAL). FOR POMCUS AND AMMO STORAGE, HOWEVER, WE WOULD PROPOSE THAT THESE LEASE COSTS BE SHARED BY NATO UNDER THE COST-SHARING FORMULA APPLICABLE TO INFRASTRUCTURE. GERMAN FRONT LOADING OF THESE COSTS COULD BE EITHER THROUGH THE FRG DEFENSE BUDGET, OR AN FRG SPONSORED PRIVATE CAPITAL CONSORTIUM.

8. SUCH A PLAN IF ACCEPTABLE WOULD NOT ONLY LARGELY ELIMINATE CONGRESSIONAL RESISTANCE, BUT ALSO PERMIT EARLIER AVAILABILITY OF THE FACILITIES WITH CONSEQUENT STRENGTHENING OF NATO REINFORCEMENT CAPABILITIES, AND AVOID THE NECESSITY TO SEEK LARGE INCREASES IN

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THE 1980-14 INFRASTRUCTURE PACKAGE WHICH MAY BE ECONOMICALLY AND POLITICALLY UNPALATABLE TO MANY ALLIES AT THIS TIME. IT WOULD SPREAD THE COSTS OVER A LONG ENOUGH PERIOD TO OFFER SOME DEGREE OF ATTRACTION TO THE OTHER NATO PARTNERS. MUCH WILL DEPEND UPON THE RECEPTION BY THE FRG OF SUCH A PROPOSAL. WE WOULD HAVE TO EMPHASIZE ITS ATTRACTIVENESS TO THE GERMANS, WITH SUCH POINTS AS: REDUCTION OF THE FRONT END LOADING OF INFRASTRUCTURE IN THE AMOUNTS NECESSARY

TO FINANCE THE FACILITIES OVER THE FIVE-YEAR (1980-1984) PERIOD, VERSUS THE LONGER 20-YEAR LEASE PERIOD, AND A CONSEQUENT LOWER FRG ANNUAL CONTRIBUTION, THE OPPORTUNITY FOR AN OPTIMALLY STABLE AND SECURE INVESTMENT OUTLET FOR SURPLUS GERMAN CAPITAL AND FINALLY A RELATIVELY IMMEDIATE BENEFICIAL EFFECT IN REDUCING A NAGGING AND SEVERE UNEMPLOYMENT PROBLEM IN THE GERMAN CONSTRUCTION INDUSTRY WHICH IS CURRENTLY RUNNING AT ABOUT DOUBLE THE NATIONAL RATE.

9. THERE ARE TWO ALTERNATIVE WAYS TO APPROACH THE FRG: EITHER DIRECTLY FROM SECDEF TO MOD FRG, OR THROUGH THE NATO LONG-TERM DEFENSE PROGRAM REINFORCEMENT TASK FORCE REPORT TO THE EWG. SINCE TASK FORCES ARE REQUIRED TO PROVIDE THEIR REPORTS TO THE EWG NO LATER THAN MARCH 1, 1978, WE WOULD HAVE TO MOVE RAPIDLY TO GET THIS PROPOSAL TO TF NUMBER 2, AND OBTAIN ITS AGREEMENT TO INCLUDING IT IN ITS REPORT. WE ARE LEANING TOWARD THE TASK FORCE ALTERNATIVE.

10. MAY WE HAVE YOUR COMMENTS/RECOMMENDATIONS ON THIS PROPOSAL AS WELL AS PREFERRED ALTERNATIVE ON GETTING THIS TO THE FRG. WE NEED THIS BY OPENING OF BUSINESS FEBRUARY 13, 1978. INFORMATION ADDRESSEES ALSO INVITED TO PROVIDE COMMENTS.

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